

# Project Briefing

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## Bringing local entrepreneurs into the supply chain: the experience of Spier

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Opening up opportunities for emerging entrepreneurs to access corporate supply chains is one of the most useful ways in which mainstream business can contribute to local development. The best known examples are among major multinationals, often in the extractive sector, such as the oil and gas industries, where 'linkage programmes' can facilitate supply chain contracts amounting to millions of dollars for local Small, Medium and Micro Enterprises (SMMEs). This Project Briefing describes a rather different case study, focusing on just one hotel in the Western Cape of South Africa.

Despite its small scale, Spier hotel is an invaluable case study, because it demonstrates the substantial development impact that can be generated by localising procurement, and a wide range of extremely practical tips on how to bring local micro and small enterprises into corporate supply chains. In short, the hotel has substantially adapted its procurement strategy to tie it more closely to local suppliers and contractors.

Spier hotel embarked on a strategic review of its procurement in 2004, and in August that year took out its first contract with a newly-established black-owned local laundry business, sourced via a new 'enterprise development' procurement approach. Since then, it has adapted management of its entire supply chain, doubled and tripled the shares that are procured locally and from 'black economically empowered' business (meaning more than 25.1% black shareholding), enabled at least 11 local black-owned micro businesses to enter the supply chain and become established, and seen the first of these emerging enterprises achieve independent commercial expansion. Five years on, the experience highlights two over-arching lessons:

1. Supply chain reform works, commercially and developmentally. It is possible to develop local procurement with commercial return and substantially higher local economic

value. The Spier Hotel has gained a range of business benefits, from cost-saving to government recognition and staff morale. Meanwhile, the gross injection into the local economy outweighs what would be possible via philanthropic flows or increased wages from a hotel this size. One medium size business can cascade new opportunities through the local economy through supply chain reform.

2. It requires leadership, hard work, and changes in approach. Spier learned the value of leadership, facilitation, communication, mentoring, service standards, payment reform, smaller contracts, quick-wins, reform of staff key performance indicators (KPIs) and much more, all of which are useful tips for others.

### Key points

- Opening company supply chains to local entrepreneurs can be a win-win for companies and the local economy
- It can generate substantial enterprise development benefits, which increase year on year
- It requires practical adaptation by a company, as shown by Spier hotel in South Africa

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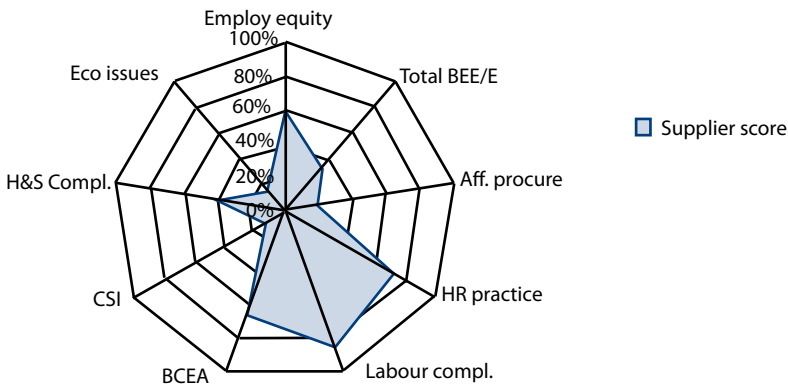
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### What was done, 2004-2005

The Spier Group is owned by a white South African family, with a strong record on a range of social, environmental and local initiatives. The Group's philanthropic donations amount to more than \$1 million per year. Spier Leisure, part of the Spier Group, operates the mid-range 155-bed Spier Hotel and conference centre in the winelands of South Africa's Western Cape. This comprises accommodation, restaurants, conference facilities, a picnic area, and delicatessen. Around 200 staff work at the hotel, which had an annual turnover of around \$5.9 million in 2007 (about 11% of Spier Group turnover).

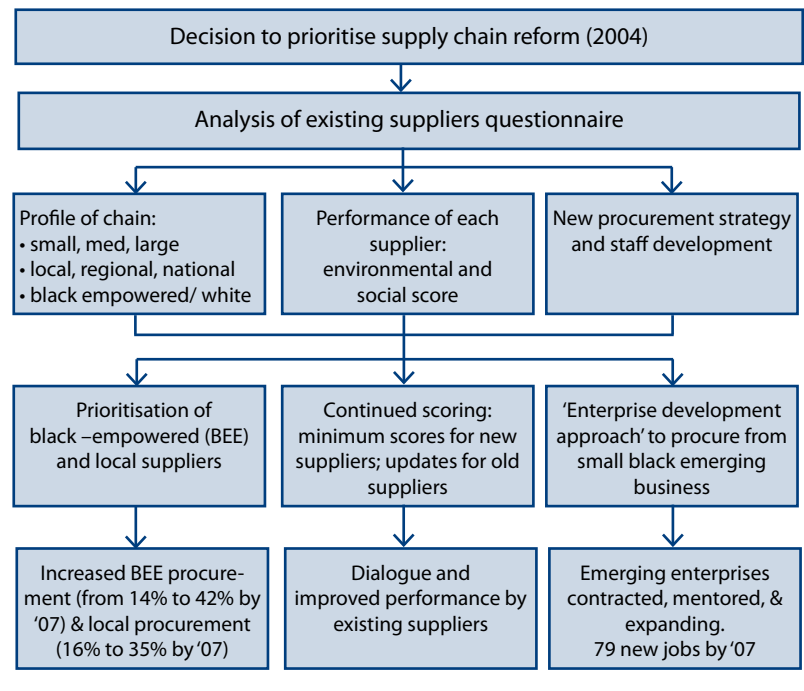
In 2004 Spier Leisure began to overhaul its procurement, led by the Sustainability Director with strong support from the owner. Across South Africa, the record of companies on Black Economic Empowerment (BEE) was receiving public and government attention, with a focus on ownership and employment practice. Many companies were interested in new opportunities to source from BEE suppliers, but what distinguished Spier's approach was the decision to take a strategic, in-depth approach: measur-

**Figure 1: Average scores achieved by Spier Leisure suppliers**



The nine categories shown in figure 1 include: Employment Equity, Total Black Economic Empowerment (BEE), Affirmative Procurement, Human Resource (HR) Practices, Labour Law Compliance, Basic Conditions of Employment Act (BCEA) Compliance, Corporate Social Investment (CSI), Health and Safety (H&S) Compliance, Environmental Action (Eco Issues).

**Figure 2: The process of strategic supply chain reform at Spier**



ing current supply chain performance, setting new priorities, establishing performance indicators, and implementing new procurement practices.

A 60-question survey was sent to all Spier Leisure suppliers. This was used to profile the supply chain. Results showed that Spier Leisure had only 34 (12.8%) black economically empowered (BEE) suppliers and of these, only four were local. In addition, only 16% of procurement spending was on purchases from local suppliers, and the vast bulk (78%) went to regional suppliers. Shifting the balance towards black and local suppliers became a priority. Survey results also showed – to the surprise of the Buyer and management – that the majority (56%) of suppliers reviewed

had less than 20 employees.

The data was also used to indicate how suppliers were performing on nine areas of socio-economic and environmental performance valued by Spier. Following analysis of multiple indicators and revision of scoring and weighting systems, spider graphs were used to illustrate how suppliers scored on each category. The results (Figure 1) showed that suppliers were focusing on legal compliance in areas of human resources, employment equity and labour law, with little focus on corporate social investment, affirmative procurement or ecological issues.

Figure 2 shows how the approach rolled out, from gathering information on the supply chain, to three new approaches to improve its performance:

1. Sourcing directly from emerging black-owned local business through a hands-on 'enterprise development' procurement strategy;
2. Shifting the share of procurement going to local and BEE businesses, in line with stated priorities;
3. Encouraging improved social and environmental performance throughout the entire supply chain, by scoring all suppliers on their performance in nine areas and setting minimum scores for new suppliers (Ashley and Haysom, 2008).

## New black enterprises enter the supply chain

Spier developed a new 'enterprise development' (ED) approach to procuring small contracts. The first was with Klein Begin laundry, servicing a new on-site restaurant. Other contracts for brick making, deck construction, fuelwood collection, and vegetation management soon followed. This ED approach combined conventional commercial standards – defined in a Service Level Agreement – with less traditional approaches, such as mentoring, assistance in procuring expertise, finance and facilities, and clauses that would ensure and facilitate employment of formerly-unemployed workers.

A part-time Facilitator helped to get the contracts going, with a view to their integration into the standard procurement system over time. For the Facilitator, working inside the company to tackle resistance and blockages was as important as mentoring the emerging business. When minor problems arose, the Facilitator aimed to find practical solutions, rather than let them become major blockages.

## Local enterprise gains and new jobs

In just over a year, the ED approach had created 33 new jobs with ongoing contracts worth \$79,000. By mid-2007, the contracts were worth around \$187,000 per annum (1.354 mn ZAR), with 79 new jobs created. Of these, 40 were held by women, and 59 by people who were previously unemployed. Contracts procured through the ED approach included laundry services, liquid petroleum gas, handmade cards, wooden deck construction, building work,

fuelwood collection, alien vegetation clearing, staff restaurant, 'turn-down gifts' (complementary gifts left on pillows), adobe bricks, and recycled paper. In addition, precarious jobs in tiny enterprises had been sustained, while no jobs had been taken from previous suppliers (most contracts were for new services). As of March 2009, further additional contracts had developed, such as a worm farm, and 'township cookies'. In addition, the first 'emerging' businesses have demonstrated their commercial independence. Klein Begin Laundry, for example, has won new contracts and expanded its operation without assistance.

The business model optimises benefits to the local economy while generating cost savings for Spier. As Table 1 shows, the ED laundry generates four times as much income to the local economy as the old supplier used by other parts of the hotel, because of the high number of local employees, a local owner, and the high share of income accruing to labour (rather than profits, capital and rent, in the Cape Town model). At the same time, the ED laundry saved costs for Spier, even after extra set-up costs.

## Lessons learned

The Spier experience generates several lessons on 'why' to harness supply chains for local enterprise development. It also generates many tips on 'how' (Box 1 overleaf).

Local supply linkages bring a range of business benefits. For Spier these include:

- Development of flexible, committed, and resilient local suppliers: in 2009, as the business climate changes and cuts are sought, local suppliers are proving able to innovate cost-effectively and flexibly; Klein Begin Laundry has now become the preferred supplier for other parts of Spier.
- Staff motivation: particularly given the high percentage of locally-recruited staff, Spier's commitment to local enterprise had a tangible impact on staff morale and service levels;
- Recognition from the Government: in a context where black-ownership is generally prioritised, recognition of Spier's procurement performance is visible in positive relations with the Municipality, high levels of public sector business and good scoring in the enterprise development and procurement categories of the BEE Scorecard.

This small scale example is significant because it provides tangible data on development gains:

- The enterprise development approach started with one contact of under \$20,000 and grew to contracts of around \$200,000 p.a. within 3-4 years.
- Because of the structure of the tenders, a substantial share (around half) of benefits are captured by women and formerly-unemployed people;
- Economic development benefits are multiplying: for example, one new entrepreneur was asked to become a BEE partner in another larger business, thanks in part to its Spier reputation.

**Table 1: Local and commercial gain from ED laundry compared to previous model**

	Previous laundry business model	Enterprise Development Laundry	Net gain in Year 1
Jobs	2	7	5
Earnings into local community, p.a.	\$5,440	\$22,400	\$17,000 Fourfold increase
Contract spend	\$62,933	\$36,000	
Set-up costs to Spier		\$11,333	
Total cost to Spier	\$62,933	\$47,333	\$15,600 Saving of 25%

The returns can be compared, tentatively, but usefully, to other benefit flows and inputs:

- Spier Leisure has around 200 direct employees and supports an unknown number of jobs through its entire supply chain. Through ED procurement, an additional 80 jobs or so have been created.
- Philanthropy is done at group level, but around \$100,000 a year is the rough share that could be apportioned to Spier Leisure (based on share of turnover). ED procurement is already generating gross revenue into local enterprise of at least twice this per year.
- From a donor perspective, investment in Spier's procurement illustrates smart use of funds with a significant return. The part-time Facilitator was funded with roughly \$30,000 of donor money in 2004-5. This was critical to kick-starting the linkages that now generate over six times that in gross value per year.
- From Spier's perspective, a range of business benefits have accrued, plus additional local financial flows that go beyond what either philanthropy or any viable boost in staffing levels or wages could achieve from an enterprise this size. The management time invested was significant at first – though never more than a fraction of time of some senior managers. In a business with a social development agenda, where management has financial and non financial KPIs, and in the post-apartheid South African context, it can be argued that transaction costs of some kind, in terms of management input, are in any case expected as normal.

These enterprise linkages are part of a wider package of supply chain reform, with procurement from larger BEE enterprises also rising, and average performance scores across the supply chain improving. Spier Group has adopted supply chain reform in other parts of the business (golf and wine). The wider impacts of the on-going roll-out on local economic development and transformation have not yet been assessed.

## Box 1: Tips for bringing local suppliers into the supply chain

Practical tips for working with local suppliers emerge from Spier's experience, echoing those of other 'SMME linkage' projects:

1. Ensure management buy-in at the start. It was strong direction from the Board that ensured that the procurement process could be changed at every level from the setting of targets, to the introduction of prompt month-end payment terms.
2. Appoint a driver. A champion needs to drive change at the top, with the mandate and resources to work across departments. A facilitator is needed for the time-consuming liaison on the ground. At Spier, management change was driven by the Sustainability Director. Searching for new suppliers, liaising with them and with procurement staff, dealing with logistics, was handled by the (donor-funded, part-time) Facilitator.
3. Understand the supply chain before reforming it. With firm data, it becomes possible to set priorities and new targets, and to monitor performance. The process of gathering information on the supply chain helped staff become aware of options and impacts. The finding that the majority of suppliers were small defeated objections from the Buyer that procurement from SMMEs would add to the workload. Just asking questions started the process of engagement with existing suppliers, which continues to this day.
4. Be opportunistic, as well as strategic, in selecting new products or services for local sourcing. Do not start by challenging the heart of existing supply chains. Consider products facing increasing demand (as with the laundry at Spier), with problems in the existing supplier relationship (as with liquid petroleum gas supply), or entirely new ideas that can be piloted (as with alien vegetation, and locally made pillow gifts).
5. Generate visible quick-wins. The success of the laundry showed Spier staff and local businesses that local supply could work, opening the way to more difficult, higher impact initiatives.
6. Tap into networks to find new suppliers. The local small business development agency had only two garden maintenance companies and one baker on their books. So the facilitator used local township, church, staff and business networks.
7. Mentoring is essential, and makes the business relationship valuable for the SMME. Most of the emerging enterprises needed initial mentoring support from Spier, but have since proved more than able to deliver commercial standards and expand. Mentoring draws on the company's valuable insight on commercial techniques and business management. In some cases Spier's role has been to help the SMME tap into mentoring from other commercial or governmental sources.
8. Do not compromise on quality. Select local entrepreneurs who will deliver the required standards, quality and reliability. Combine contractual clauses in a Service Level Agreement with communication, mentoring, and rapid response to deal with problems. When stains were left in restaurant napkins, some saw this as a sign the laundry would not work. The facilitator took it as an opportunity to help the new business access the best technical expertise and find solutions.
9. Review practicalities of procurement to make it easier for small suppliers. Spier changed payment terms, offered smaller contracts out to tender, and helped new suppliers with provision of tools, use of facilities and innovative financing.
10. The Buyer is a key player. The Buyer is too busy to mentor new suppliers. But the Buyer has to be on board if SMMEs are to become regular suppliers. Recognise the strength of existing buyer-supply relations, and the trust and reliability that is built up over time. If 100 lettuces are needed for dinner, they have to be delivered that day or not at all. New supply links must work around, and then build up, relations of trust.
11. Internal processes, people and barriers are as important as external ones. In managing internal change, the champion and facilitator had to address procurement procedures, staff attitudes and performance indicators.
12. Exploit local business opportunities within the sustainability agenda. Boosting environmental sustainability has been a rich source of new local business options: recycling paper waste into hand towels, converting alien vegetation into firewood, and setting up a worm farm to provide vermin-compost for farming.



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Support to Spier's procurement reform was provided by a part-time Facilitator, Gareth Haysom, as part of the 'Pro-Poor Tourism Pilots' Project. This action research project was funded by DFID's Tourism Challenge Fund (then Business Linkages Challenge Fund) from 2002-2005, to catalyse, demonstrate, and learn from shifts in core business practice in the tourism sector that contribute to poverty reduction.

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